



REDMOND INDUSTRIAL MARKET BUILDS STEAM

By Terry O'Neil, CCIM

The Redmond industrial market has been a slow train coming post-recession, however it continues to build steam with each passing quarter. Based on our third quarter market survey, out of 1,521,715 square feet, only 32,399 sq. ft. remains unleased, leaving Redmond's industrial vacancy rate at a mere 2.2%. That is down 2.4% from last year's third quarter report of 4.6% and a significant difference from the 30% vacancy rates during the recession. Redmond's industrial vacancy rate is also lower than Bend's third quarter vacancy rate of 3.6% in the same sector.

Industrial lease rates are on the rise in Redmond as well. Average advertised rates per sq. ft. on a monthly basis are currently at \$0.60 for space under 5,000 sq. ft. Larger units in the 8,000 to 20,000 sq. ft. range have asking rates in the \$0.41 range. Another item to note is that current advertised lease space is quoted on a triple net (NNN) basis. This is a far cry from the recessionary rate averages which were as low as \$0.32 per sq. ft. with

many of those on a gross basis. In today's marketplace many landlords are now enjoying having those operating expenses covered by their tenants.

We are often asked "What is driving this lack of available industrial space in Redmond and forcing those lease rates to increase?" It appears to be a variety of factors. Probably the most prominent reasons are escalating lease rates in Bend and a lack of opportunities available there. Until recently, lease rates in Bend were 30% to 40% higher than Redmond. That gap is quickly closing with Redmond lease rates approximately 20% lower than Bend.

Another major contributor to the increase in lease rates and the low vacancy rates is the lack of new construction of industrial buildings in Redmond. While industrial land is still affordable in Redmond (averaging around \$4.50 per sq. ft.) construction costs have escalated to a point where investors still are not incentivized to build new buildings. The lack of

developer interest could change as lease rates escalate further.

A common theme encountered when speaking to businesses that are leasing space in Redmond is the convenient location provided while working within the Central Oregon region. Owners find their cost of operations much more competitive with less travel time between accounts as the entire region grows. With excellent proximity to Roberts Field Airport and other transportation hubs, the future of Redmond's industrial market is looking better every day.

Redmond enjoys a large amount of buildable industrial land and has an infrastructure to support development. The City of Redmond is responsive to growth and encourages new businesses to take a good look at available incentives. At Compass Commercial, we are very bullish on the future of Redmond industrial and have encouraged clients to invest there. Several of them have and are already experiencing positive returns.

Bend OFFICE Market

Compass Commercial surveyed 204 buildings for the third quarter 2017 office report. The buildings in the sample totaled just under 2.5 million square feet. Positive net absorption of 27,928 sq. ft. was recorded during the quarter. The vacancy rate dropped significantly as a result, from 3.73% to 2.64%. There is now just 65,540 sq. ft. available for lease, down from 93,468 sq. ft. in the second quarter. Once again, this represents the lowest office vacancy rate since Compass' brokers began tracking vacancies in 1996.

All three submarkets recorded positive net absorption in Q3. Downtown showed 2,830 sq. ft. of net leasing, lowering the vacancy rate from 5.1% in Q2 2017 to 4.5% in Q3. Four buildings recorded positive absorption and three buildings saw negative absorption in the submarket, with

no significant leases or losses over 2,200 sq. ft. noted. There is currently 21,797 sq. ft. of office space available in the downtown area.

The Highway 97/3rd St. corridor recorded 20,783 sq. ft. of positive absorption in the third quarter. Six buildings reported positive change



ABSORPTION VACANCY

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| BEND OFFICE Net Absorption | | | | | BLDGS. OVER 3,000 SQ. FT. | |
|----------------------------|------------|------------------|-----------------|---------------------|---------------------------|---------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 3rd Qtr. | 3rd Qtr. Absorption | Total 2017 Absorption | Total 2016 |
| Downtown | 48 | 483,259 | 4.5% | 2,830 | (2,149) | 24,027 |
| Hwy 97/3rd St. | 55 | 676,837 | 2.3% | 20,783 | 22,097 | 37,115 |
| West Side | 101 | 1,323,261 | 2.2% | 4,315 | 25,680 | 13,908 |
| TOTAL | 204 | 2,483,357 | 2.6% | 27,928 | 45,628 | 75,050 |



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Bend OFFICE Market | CONTINUED

and just one was negative during the quarter, lowering the vacancy rate from 5.32% to 2.25%. The largest lease recorded was in the recently purchased building at 409 NE Greenwood Ave., the former Mosaic Medical Building, where the East Bend Animal Hospital will be relocating. Along with other new leases in the building, the absorption totaled 12,094 sq. ft. of leased space. A total of 15,233 sq. ft. is now for lease in that submarket.

The west side submarket recorded positive absorption of 4,315 sq. ft., lowering the vacancy rate from 2.44% to an astounding 2.15%. Four buildings reported positive gains and two lost occupancy. Cascade View Plaza and the Brooks Building led the way with leases of 3,452 and 3,280 sq. ft. respectively. Currently there is only 28,510 sq. ft. of office space available on the west side, out of 1,323,261 sq. ft. total in the submarket. This once again represents the lowest amount of available space in more than 10 years, since Q4 2006, and down from a peak of over 293,000 sq. ft. in Q4 2012, when the vacancy rate stood at 22.3%. In fact, there are only six buildings with available space for lease on the west side, and 21,000 sq. ft. of the 28,510 sq. ft. available are in one building at the Deschutes Ridge Business Park, currently under total renovation. And there are 2 leases currently pending in that building.

Bend RETAIL Market

Compass Commercial surveyed 253 retail buildings totaling over 4,464,000 square feet for the third quarter of 2017. The citywide vacancy rate fell once again, from 3.15% to 2.6% at the end of Q3, due to a total of 17,414 sq. ft. of positive absorption.

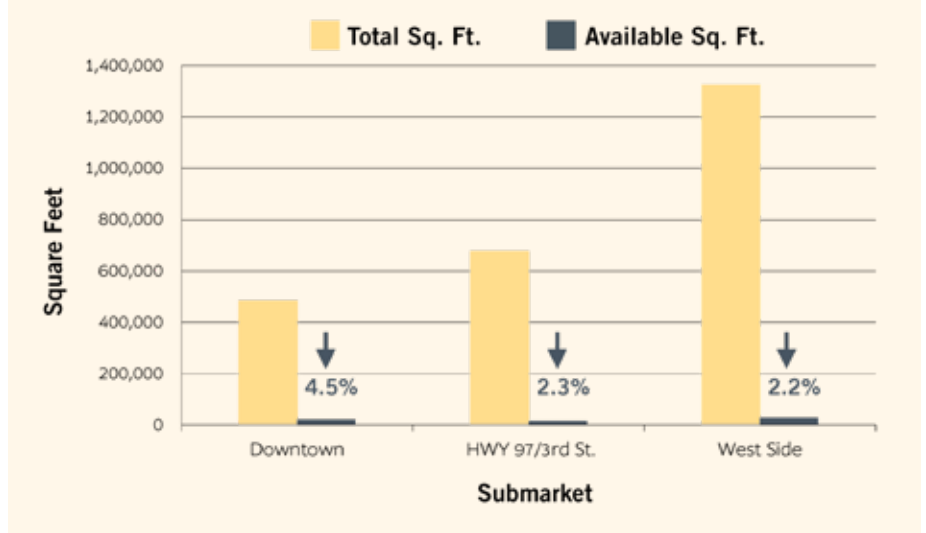
Three out of the seven retail submarkets in Bend recorded positive net absorption, two were negative, and two remained the same, at full occupancy.

The central 97 submarket once again saw the greatest gain, recording 19,900 sq. ft. of positive absorption. The only building recording new leases was in the former Erickson's Thriftway site on NE Greenwood Ave., which leased the aforementioned total of 19,900 sq. ft. to Planet Fitness. There were no new vacancies in that submarket during the quarter.

The south Hwy 97 submarket finished at 3.0% vacancy, up slightly from the previous quarter's 2.9%, due to 596 sq. ft. of net negative occupancy recorded. A lease of 1,254 sq. ft. at Brookwood

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BEND OFFICE Vacancy

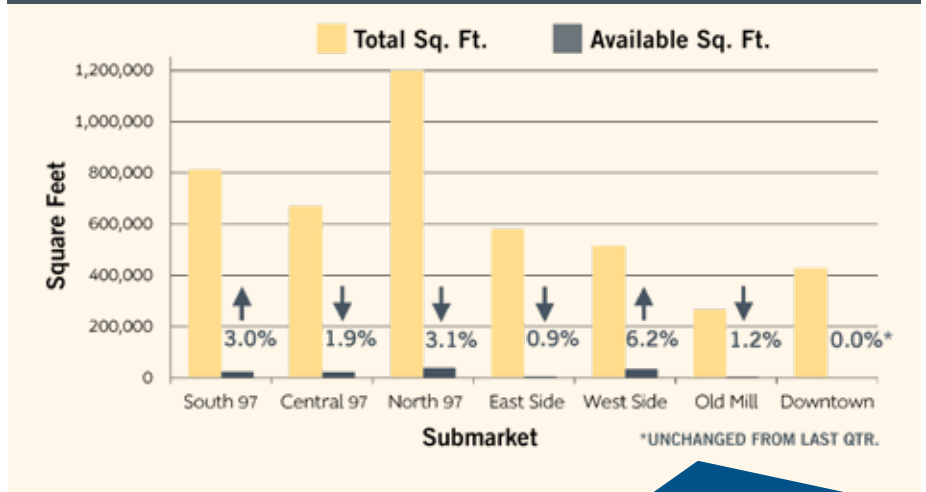


BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 3rd Qtr. | 3rd Qtr. Absorption | Total 2017 Absorption | Total 2016 |
|-------------------|------------|------------------|-----------------|---------------------|-----------------------|---------------|
| South 97 | 19 | 810,744 | 3.0% | (596) | 12,330 | 900 |
| Central 97 | 41 | 669,172 | 1.9% | 19,900 | 9,623 | (6,510) |
| North 97 | 28 | 1,199,319 | 3.1% | 26 | 8,754 | 14,605 |
| East Side | 28 | 578,336 | 0.9% | 1,359 | 4,659 | 18,898 |
| West Side | 53 | 514,732 | 6.2% | (3,275) | (24,689) | 6,155 |
| Old Mill District | 19 | 265,502 | 1.2% | 0 | 7,442 | 3,837 |
| Downtown | 65 | 426,617 | 0.0% | 0 | 0 | 13,046 |
| TOTAL | 253 | 4,464,422 | 2.6% | 17,414 | 18,119 | 50,931 |

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 305 buildings for the third quarter industrial report, totaling over 4,265,000 square feet. The industrial market gained another 60,796 sq. ft. of positive net absorption in Q3, and the vacancy rate dropped from Q2's 4.99% to 3.56%. There is now 151,944 sq. ft. of industrial space available for lease in Bend, compared to 212,740 in Q2. Two of the four submarkets recorded positive net absorption, and two remained unchanged.

The northeast submarket led the way with an impressive 53,816 sq. ft. of positive absorption in Q3, with Suterra leasing 28,000 sq. ft. in the former Advanced Energy Building on Brinson Blvd. and Zamp Solar taking over 16,000 sq. ft. in the Murray Road Industrial Park. The vacancy rate in the northeast submarket is now just 5.9%, down from 8.4%, in Q2. There is currently 124,952 sq. ft. available out of a total of over 2.13 million sq. ft. in the northeast submarket. Four buildings recorded positive results, while just one was negative.

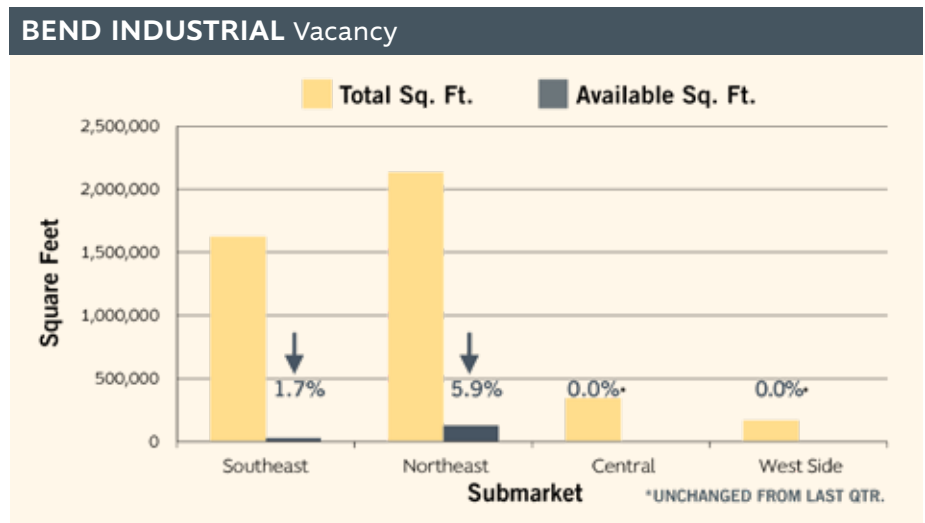
The southeast submarket gained 6,980 sq. ft. In that submarket five buildings were positive and three were negative, resulting in a vacancy rate of 1.7%, down from 2.1% in Q2. The largest lease took place at 921 SE Armour Rd., where Central Transport leased 14,180 sq. ft. in the building most recently occupied by Peak Airsoft Indoor Arena. The largest loss was in the former ProVend Services Building on the corner of 9th St. and Wilson Ave., which recorded a negative 4,532 sq. ft.

REDMOND

Reversing a brief occurrence in Q2 when the vacancy rate rose for the first time since the second quarter of 2014, the vacancy rate fell in Redmond's 1.52 million square foot, 78 building industrial market in Q3. Net positive absorption of 15,502 sq. ft. was recorded in Q3, resulting in a drop in the vacancy rate from 3.2% at the end of Q2, to 2.2% at the end of Q3. This represents the lowest vacancy rate in the Redmond industrial market since the 4th quarter of 2000, when the rate was 1.4%, when there was less than 400,000 square feet of leasable industrial space, and it is the 4th lowest vacancy rate since Compass begin tracking that statistic in 1996. There is now just 32,999 sq. ft. of industrial space on the market for lease, representing just over a 6-month supply at current leasing activity.



| BEND INDUSTRIAL Net Absorption | | | | BLDGS. OVER 3,000 SQ. FT. | | |
|--------------------------------|------------|------------------|-----------------|---------------------------|-----------------------|---------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 3rd Qtr. | 3rd Qtr. Absorption | Total 2017 Absorption | Total 2016 |
| Southeast | 136 | 1,623,511 | 1.7% | 6,980 | (6,222) | 49,943 |
| Northeast | 125 | 2,131,766 | 5.9% | 53,816 | 128,863 | (13,317) |
| Central | 35 | 342,037 | 0.0% | 0 | 0 | 1,340 |
| West Side | 9 | 168,240 | 0.0% | 0 | 0 | 0 |
| TOTAL | 305 | 4,265,554 | 3.6% | 60,796 | 122,641 | 37,966 |

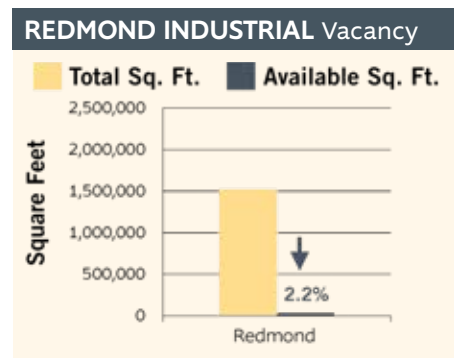


The central and west side submarkets remained fully leased, with vacancy rates standing at 0.0%. However, 3,990 sq. ft. of industrial/flex space is being

marketed at the building on 345 SW Cyber Dr., currently home to Grace Bio-Labs, who will be vacating around the first of the year.

| REDMOND INDUSTRIAL Net Absorption | | | | BLDGS. OVER 3,000 SQ. FT. | | |
|-----------------------------------|------------|---------------|-----------------|---------------------------|-----------------------|------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 3rd Qtr. | 3rd Qtr. Absorption | Total 2017 Absorption | Total 2016 |
| Redmond | 78 | 1,521,715 | 2.2% | 15,502 | 23,636 | 44,238 |

Leasing activity was brisk, with eight buildings recording positive absorption and three negative. The Fairground Business Center on SW 21st St. led the way with a new lease of 5,329 sq. ft., and two leases of more than 4,000 sq. ft. were recorded at Deerhound Plaza and a building at 2045 SW Deerhound Ave., as well as a building on Lake Rd. and one on Veterans Way. Two vacancies over 6,000 sq. ft. were recorded at the Afatatti Industrial Park on SW 2nd Ct., and the Medisiss Building on SW 6th St.



Bend **RETAIL** Market | CONTINUED FROM PAGE 2

Meadow Plaza, and a loss of 1,850 sq. ft. at the Bend Factory Stores were the only activity for the quarter.

The east side and north 97 submarkets also were positive, recording 1,359 sq. ft. and 26 sq. ft. of positive net absorption in those areas.

The west side submarket now has the highest vacancy rate at 6.2%, with another

net loss of 3,275 sq. ft. recorded during the quarter. Two restaurants went dark in that submarket, Aji Asian Kitchen at the Safeway-anchored Century Park and Craft Kitchen and Brewery in the Green Chain Building at 803 SW Industrial Way. One building recorded positive absorption of 1,683 sq. ft. at 155 SW Century Dr.

The Old Mill District and Downtown

submarkets recorded no activity, so the vacancy rate in those areas remained at 1.2% and 0.0%, respectively.

There is currently 124,915 sq. ft. available for lease city-wide, down from 140,157 sq. ft. in Q2. This quarter's 2.8% vacancy rate is once again the lowest we have recorded since we began tracking retail vacancies in 2008.

Notable **TRANSACTIONS**

Compass Commercial Real Estate Services negotiated the following notable transactions in the third quarter of 2017. 98 transactions (27 sales and 71 leases) were closed totaling \$43.1 million in consideration. For more details about our monthly transactions, please visit Compasscommercial.com/Transactions.

SALES

| TYPE | PROPERTY | BUILDING/LOT SIZE | PRICE | COMPASS COMMERCIAL REPRESENTED |
|-----------------|-----------------------------|-------------------------|--------------|---|
| Industrial | 20735 High Desert Ln., Bend | 106,776 SF / 7.74 acres | \$16,300,000 | Dan Kemp, Erich Schultz, Jay Lyons & Grant Schultz / Seller |
| Multifamily | 1215 NW Portland Ave., Bend | 13,824 SF / 0.66 acres | \$2,150,000 | Joel Thomas / Buyer |
| Industrial | 20551 Builders St., Bend | 19,000 SF / 1.15 acres | Undisclosed | Pat Kesgard & Kerri Standerwick / Buyer |
| Industrial | 2747 SW 6th St., Redmond | 20,750 SF / 1.07 acres | \$1,750,000 | Dan Kemp / Buyer |
| Commercial Land | 61070 Hwy 97, Bend | 2.34 acres | \$1,640,000 | Ron Ross, Peter May & Dan Kemp / Buyer |

LEASES

| TYPE | PROPERTY | SF LEASED | LESSEE | COMPASS COMMERCIAL REPRESENTED |
|------------|-----------------------------|-----------|--------------------------|--|
| Office | 650 SW Bond St., Bend | 7,738 SF | Wells Fargo Bank | Erich Schultz, Jay Lyons & Grant Schultz / Landlord |
| Office | 543 & 549 NW York Dr., Bend | 8,438 SF | Undisclosed Software Co. | Jay Lyons / Tenant Bruce Churchill, Erich Schultz & Grant Schultz / Both |
| Retail | 555 NW Arizona Ave., Bend | 2,228 SF | Foxtail Bakeshop, LLC | Russell Huntamer, Jay Lyons & Grant Schultz / Both |
| Medical | 1835 NW Pence Ln., Bend | 1,700 SF | Pamela Mondorf | Kerri Standerwick & Pat Kesgard / Tenant |
| Industrial | 20695 Brinson Blvd., Bend | 11,468 SF | Humm Kombucha | Ron Ross & Terry O'Neil / Tenant Dan Kemp & Peter May / Landlord |